

**Speech to Incheon Economic Community Forum
"Building an Economic Hub That Works"**

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President Park Sang-eun and distinguished guests: It is my great honor to be able to represent the United States Embassy here today at the Fifth Incheon Economic Community Forum. I am excited to have this opportunity to meet so many of the leaders of Incheon. This city stands at the crossroads of Northeast Asia, and therefore at the center of Korea's dreams for the future.

Today I would like to offer a foreigner's thoughts on Korea's role in the economic integration of Northeast Asia. I would also like to talk about the environment for foreign investment in Korea, and ways that we can work together to encourage foreign firms to give even greater attention to Korea as a locus for economic activity.

Korea in a Growing Northeast Asia

One of the striking trends of the past 20 years has been the growing economic integration of the countries of Northeast Asia. Trade levels within Northeast Asia, and between Northeast Asia and the United States, have skyrocketed. The amount of tourism, the number of students traveling from one country to study in another, all are much higher than ever before, and all provide evidence of greater economic integration within Northeast Asia. It would be difficult to overstate the economic, cultural and security benefits that have accrued to the countries involved in this integration.

Located in the dynamic Northeast Asia region, Korea's economy continues to look outwards for sources of growth. Already this year, Korea has exported 170 billion dollars worth of goods, and imported almost 160 billion dollars worth. Trade is growing at about 20 percent this year. Meanwhile, Korean firms are busy investing overseas, with headline-grabbing moves to China, not to mention high profile investments in the United States, such as the Hyundai automotive plant recently opened in Alabama.

Korean music, movies, and television shows are hits throughout East Asia.

Compared to most of its neighbors and economic competitors, meanwhile, Korea also enjoys sound macroeconomic conditions and good macroeconomic management. It recovered quickly and strongly from the 1997-98 financial crisis. The government also tackled difficult financial reforms head on and took steps to open up the economy. This brought a marked upswing in foreign direct investment, which exceeded \$9 billion annually in 1999 and 2000.

But despite Korea's considerable economic success, and despite its enviable location in the middle of one of the world's top growth regions, I sense that there is a sense of unease today among Korean Government officials and within the Korean business community. Perhaps this is because, in a way we never anticipated even ten years ago, Korea today faces competition for export markets and investment flows from developing countries that offer lower wages and increasingly skilled workers. China, of course, is the main example, but Korea also faces a challenge from Thailand, Malaysia, and some of the former East Bloc countries.

Regardless of the causes of this sense of insecurity, a key question for us today is how Korea will respond -- by turning inward and attempting to preserve existing industries at all costs, or by further liberalizing its economy, removing trade and investment barriers, and opening itself more completely to the world. Our own experience, of course, argues strongly for the latter course, and many influential Koreans share our view. But it is also fair to say that some powerful Koreans want to turn the clock back, and the Korean political system as a whole is showing troubling signs of allowing these backward-looking interests to retard progress in opening and reform. This is worrisome, because economies that are too rigid, too inflexible, will not withstand globalization; they will be broken by it.

Making the "Hubs" Work by Building a Welcoming Business Environment

The Roh Administration has launched an ambitious plan to map out Korea's strategy toward economic integration, by transforming Korea into the "economic hub of Northeast

Asia." He came into office well aware of the economic challenges Korea faces, and he has outlined his vision of how to meet them. President Roh has pledged to continue structural economic reforms, including critical areas such as corporate restructuring, bank privatization, labor reforms, and bankruptcy law amendments.

The United States, for one, strongly supports Korea's idea of transforming itself into an economic "hub" for Northeast Asia. We applaud this concept because creating an economic "hub" in Korea would require policy changes that would both liberalize and open up Korea's economy and create more opportunities for U.S. companies. It will also help Korea make an even larger contribution to the peace and prosperity of the Northeast Asian region.

The government has not yet released its comprehensive report on the "hub" strategy. But looking at the strategy piece by piece from afar, it appears that there are three elements to it: a financial "hub" strategy, a transport and logistics "hub" strategy, and a general business "hub" strategy.

Financial regulatory issues are complex, and therefore please allow me to cheat and set them aside for today. We can hopefully discuss the "financial hub" idea in greater detail at some other time.

Looking at the idea of a "transportation and logistics hub," however, it appears that Korea has a strong chance for success in realizing this dream -- and it is also apparent that Incheon will be at the center of this dream. Incheon and the Korean government have made impressive investments in state-of-the-art infrastructure that will position Korea well to be a center for transshipment of goods and people in Northeast Asia. The new facilities being made available at Songdo are truly remarkable in their scale and ambition.

Related to the "logistics hub" idea is the question of Free Economic Zones. Foreigners look at the government's recent initiatives to open up Free Economic Zones, such as the one in Incheon, with a mixture of hope and caution. Hope, because this could be an important stepping stone to making Korea's business environment more open, liberal, and responsive to economic needs. Caution, because our firm view is that the best course is to turn all of Korea into a

"free economic zone", and we worry that the regulatory changes proposed for these zones will remain limited to them, and not help improve the environment in the country as a whole.

I have lived in Japan, China and the Philippines, in addition to Korea and the United States. My personal experience with Free Economic Zones and other investment zones is that it is very important to figure out exactly what investors really want, and not make too many assumptions about what they want.

This brings me, finally, to the question of turning Korea more generally into a "business hub." On this matter, there are a number of challenges.

Frankly speaking, Korea's neighbors in Northeast Asia are not going to allow it to develop into the business hub of the region without a fight. If Korea wants to succeed as a regional hub, it needs to be better than the competition. This means offering a predictable and stable business environment with a transparent regulatory process, more open markets, improved corporate governance, reduced government interference in the market, and better protection of intellectual property rights. Korea also needs to allow firms more flexibility in the hiring and firing of workers, and needs to seek more constructive relations between management and workers generally. These are problems that cut across economic sectors and discourage potential investors.

In one form or another, these issues have been on our bilateral agenda for years. They underlie current U.S.-Korean trade irritants related to telecommunications, pharmaceuticals, agriculture, and automobiles. For example, U.S. companies have complained about intrusive government influence in setting technology standards -- standards that benefit local technology and discriminate unfairly against foreign companies.

These are the types of challenges foreigners see in making Korea into a true business "hub" for Northeast Asia. Given Korea's dynamic history, I for one am confident Korea will succeed.

Other Roads Forward

In addition to moving forward with the three "hub" ideas, there are other steps Korea could take to meet its international economic challenges, and improve its chances for continuing to play a dynamic role in the Northeast Asian political economy.

One fine option would be for Korea to take a more positive stance toward trade liberalization in the WTO. Korea helped get the Doha Development Round off to a productive start, but the Korean delegation showed less flexibility at Cancun. This is likely in response to pressure from Korea's strong farm lobby, which also appears to be blocking National Assembly consideration of the free trade agreement Korea negotiated with Chile. Korea is a major trading nation, and if the Korean Government took a leadership role in moving the Doha Development round forward, businesses would definitely take notice.

By the same token, intensifying Korea's efforts to negotiate bilateral FTA's, particularly in Northeast Asia, would give businesses confidence that Korea will keep its economy heading in the direction of greater opening. On this front, we took note of the announcement in Bangkok that Korea and Japan plan to negotiate a bilateral FTA within two years, and that Korea and Singapore hope to finish their FTA negotiations within one year. We wish you luck, and hope and expect that this will lead to good, comprehensive FTA's. South Korea is also working to improve trilateral economic and technical cooperation with Japan and China. We encourage such regional cooperation and do not see it as a threat to the U.S.-Korea economic relationship. To the contrary, we believe that strong economic ties between South Korea and its neighbors, based on cooperation between free market economies, would be to the benefit of all those active in the global economy.

Finally, Korea will host the APEC Ministerial and Leaders meetings in 2005. APEC is the preeminent economic forum in the Asia-Pacific Region, and Korea could use its chairmanship to push vigorously for trade and investment liberalization. Korea is already contributing constructively within APEC, for example by sponsoring a creative transparency initiative. We hope Korea will also support an APEC regional air transport agreement, an idea that seems consistent with Korea's hub aspirations. We look forward to working closely with Korea during its chairmanship.

Like the willow that bends with the wind, but remains firmly rooted, making these changes does not mean that Korea is giving up its essence, or its cultural uniqueness, as some anti-globalization critics might claim. Creating a business and economic environment where multinational corporations can thrive will also enable Korea as a whole to prosper in the new economic realities of the 21st Century. I hope that we can all work together to realize this vision.

Thank you very much.